

CITY OF NEOLA
INDEPENDENT ACCOUNTANTS' EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2013 THROUGH JUNE 30, 2014

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City of Neola

Officials

(Before January)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lon Ring	Mayor	Jan 2014
Ethan Matthews	Council Member	Jan 2014
Aric Thomsen	Council Member	Jan 2014
Herb Brich	Council Member	Jan 2016
Pete Sorenson	Council Member	Jan 2016
Joe Munch	Council Member	Jan 2016
Leslie Parker-Bryant	City Clerk	Indefinite
Scott Rogers	Attorney	Indefinite

(After January)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Scott Brooks	Mayor	Jan 2018
Ethan Matthews	Council Member	Jan 2018
Aric Thomsen	Council Member	Jan 2018
Herb Brich	Council Member	Jan 2016
Pete Sorenson	Council Member	Jan 2016
Joe Munch	Council Member	Jan 2016
Leslie Parker-Bryant	City Clerk	Indefinite
Clint Fichter	City Administrator	Indefinite
Scott Rogers	Attorney	Indefinite



Diane McGrain, CPA
Jim Menard, CPA

Independent Accountants' Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed an agreed-upon procedures engagement of the City of Neola pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Neola for the period July 1, 2013 through June 30, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2013 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.

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10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.
17. We reviewed the status of prior agreed-upon engagement findings.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the operations of the City of Neola, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Neola, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Neola and other parties to whom the City of Neola may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Neola during the course of our examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schroer & Associates, P.C.

January 28, 2015

Detailed Recommendations

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, deposit and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) City Council Minutes – Although minutes of City Council proceedings were published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa, they did not always include total disbursements by fund, a summary of all receipts, and for the month of March the publication of claims allowed. Minutes were not always signed.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and publish total disbursements by fund, a summary of all receipts, and a list of claims allowed for the month. Minutes should be signed by the clerk and mayor for each meeting.

(C) Payroll – The City is completing time sheets, however the time sheets are not approved and signed by the reviewer. Also, we noted one instance where the hours paid were more than the hours recorded on the corresponding time sheet. In addition, annual wage increases for all City employees were approved based on a percentage and the actual approved wages were not documented in the City Council minutes.

Recommendation – The City should have all time sheets reviewed and approved by department heads or management before being submitted. The City should approve a payroll resolution that adequately documents wages of employees.

- (D) Bank Reconciliations- The cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile. The monthly treasurer's report did not tie to the accounting software.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initializing and dating the monthly reconciliations.

- (E) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in public safety, health and social services, debt service, and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (F) Revenue Bonds and Notes – The Sewer Fund had total customer net receipts of (\$20,026). The sewer revenue notes are to be paid solely from sewer customer net receipts.

Recommendation – The City should monitor spending or consider increasing sewer rates to ensure total customer net receipts are sufficient enough to cover the principal and interest payments.

- (G) Financial Condition – The Special Revenue – Employee Benefits, Debt Service, and Enterprise - Sewer Fund, Enterprise – Sewer Capital Projects Fund, and Enterprise – Electric Fund had deficit balances at June 30, 2014.

Recommendation – The City should monitor activity in these funds in order to eliminate the deficits.

- (H) Compensated Time Policy – The City Council has established a policy for the use of compensated time; however, the policy does not state whether the time is paid upon retirement, death or termination.

Recommendation – The City should address this issue in their Compensated Time Policy.

- (I) Public Property – The City Council has not established a policy of vehicle usage for other than City purposes. Private use of public property is prohibited by Article III Section 31 of the constitution of the State of Iowa which states in part, “...no public money or property shall be appropriated for local or private purpose.”

Recommendation – The City should establish a policy prohibiting private usage of public vehicles.

(J) Urban Renewal Annual Report – The urban renewal annual report was not certified to the Iowa Department of Management on or before December 1 and approved by the Council.

Recommendation – The City should file the annual report and ensure the cash balances and debt amounts reported on the Levy Authority Summary agree with the City’s records. The City should also contact the county to obtain a summary of the debt certified by the prior clerk.

(K) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly and retained in the City’s records. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

(L) Transfers – A transfer between the Enterprise, Electric Fund to the General Fund was not approved by the Council.

Recommendation – The City Clerk should obtain approval of transfers between funds from the Council before transfers are made.

(M) Separately Maintained Records – The Fire Department maintained a savings account that was not included in the City’s accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

(N) Payment of General Obligation Debt – The June payment on the City’s general obligation bonds was paid from the Enterprise, Water Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax must be deposited in the debt service fund”.

Recommendation – The City should transfer from the Enterprise Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required.

(O) Disbursements – The minutes were missing the approval of claims for the months of September and October when there was no City clerk. One item tested in March and several items in May were not included in the listing of claims to be allowed.

Recommendation – The City should establish procedures to ensure a complete detailed listing of all claims that should be approved for payment.